

COMMITTEE ON FINANCE
(Standing Committee of Berkeley County Council)

Chairman: Mr. Jack H. Schurlknight, Council Member District No. 6

A **meeting** of the **Committee on Finance**, Standing Committee of Berkeley County Council, was held on Monday, **February 27, 2012**, in the Assembly Room of the Berkeley County Administration Building, 1003 Highway 52, Moncks Corner, South Carolina, at 6:47 p.m.

PRESENT: Chairman Jack H. Schurlknight, Council District No. 6; Committee Member Robert O. Call, Jr., Council District No. 3; Committee Member Cathy S. Davis, Council District No. 4; Committee Member Caldwell Pinckney, Jr., Council District No. 7; Committee Member Steve C. Davis, Council District No. 8; ex-officios Mr. Daniel W. Davis, County Supervisor, Mr. Phillip Farley, Council District No. 1; Mr. Timothy J. Callanan, Council District No. 2, and Mr. Dennis Fish, Council District No. 5, Ms. Nicole Ewing, County Attorney; and Ms. Catherine Windham, Interim Clerk to County Council.

In accordance with the Freedom of Information Act, the electronic and print media were duly notified.

Chairman Schurlknight: "I'd like to call the Finance meeting to order. Ms. Clerk, has this meeting been properly noticed by the South Carolina Freedom of Information Act?"

Ms. Windham: "Yes sir, it has."

Chairman Schurlknight: "Thank you."

APPROVAL OF MINUTES

Chairman Schurlknight: "First on the agenda is the approval of minutes from the Transparency Committee on January 18, 2012 and the Committee meeting of January 23, 2012."

Committee Member S. Davis: "Move for approval."

Committee Member Pinckney: "Second."

Chairman Schurlknight: "We have a motion and a second. Is there any changes to these minutes? Hearing none, all in favor? (Ayes). Opposed? (No Response). The minutes stand approved as presented."

County Attorney Ewing: "Mr. Chairman, can I have a clarification? The Transparency Committee was made up of different members of staff and Members of Council so I'm not sure how the Finance Committee can approve their minutes unless there's some procedural issue or stance that I'm not familiar with. Or, is that from?"

Supervisor Davis: "I guess you're saying the Committee needs to approve the minutes rather than and the minutes be submitted to the Finance Committee."

County Attorney Ewing: "Right."

Chairman Schurlknight: "Ok, we can do that."

County Attorney Ewing: "Ok."

Council Member Callanan: "Which is good, because they spelled my name wrong anyway."

Chairman Schurlknight: "Ok. Ms. Clerk, we'll let the record show that; that the approval is just for the Finance Committee for January 23, 2012. We'll wait for the minutes of the Transparency Committee."

It was moved by Committee Member S. Davis and seconded by Committee Member Pinckney to **approve** the minutes of the Committee on Finance from January 23, 2012, as presented. The motion passed by unanimous voice vote of the Committee.

EXECUTIVE SESSION- None

Chairman Schurlknight: "Fortunately, we don't need an Executive Session for tonight. Next on the agenda is..."

A. Mr. Larry Finney, Finney and Horton, Re: 2011 County Audit.

Mr. Finney: "Thank you, Mr. Schurlknight. Chairman Davis, Council Members, we appreciate the opportunity to be here. To present the financial results, the audit results for the audit for the fiscal year ending, June 30, 2011. Before I forget, let me mention, I know we're about a good month later than normal in coming to you for this presentation. What happened is, the firm who had done the previous actuarial evaluation for the OPEB, the Other Post-Employment Benefits Plan, could no longer do that. So, the County had to take some time to find somebody else to do that evaluation so that took a little more time than it normally would. So, that's why we're coming just a little bit later. What I'd like to do is, is a couple of things. One is to talk briefly about the actual results from the audit itself and then, I want to take a little bit of time and talk about the County and where you're at financially. The overall financial condition for this last year ended. A couple of things you actually, some required communication from us to you. But, you also have this in a copy of the management letter that's already been provided to you. But, I really wanna highlight here, is to tell you that for the year ended June 30, 2011, the County did received what's called an **Unqualified Opinion**. What I like to tell you is that's as good as it gets. The County cannot receive a better opinion than Unqualified Opinion and so, you as Council Members as well as, Management and Finance staff, ought to be very pleased with that."

Mr. Finney: "It's been several years since we've had this discussion that I want to spend just a couple of minutes just talking about the **risk of fraud**. The reason this is important, I think, is just to kind of remind you of the importance of internal controls. Every couple of years, the Association of Certified Fraud Examiners does a study. It's actually a national and international study looking at the risk of fraud. They look at a lot of different fraud cases including many in government and one of the things that they spend some time looking at is; how is fraud when it does occur? When it's found, how is it detected? What I've highlighted for ya up there in those bullet points is the six most common methods that they determine that fraud is found. When it actually occurs and they're actually in order and so, by far and away, the most common way is just through tips. Most of the time those tips are from employees, sometimes from vendors. But, they have found that the number one way that tips are provided is through a hotline. Last, several years ago, when we first had this discussion, the County did not have a hotline. But, since then, the County has put in place a hotline, so I think you ought to be very pleased with that. Number two, accidental detection. That's almost always internal, then you have internal audit and internal control so, the reason I put this up here is to highlight that. Over 80% of the time when fraud is found, it is found internally. What this really does more than anything else is highlight the importance of internal controls of having an effective policies and procedures that allow employees to report anything that they might see that seems unusual, whatever it may be. If you're relying on those of us outside of the County, it's going to take a long time before we might finalize that stuff and really to highlight that, a good bit of a reason is, most fraud...we're involved in several fraud cases every year, most fraud is not that material in terms of really big dollars. It's all important material in regards to safeguarding what we have so, just wanted to highlight the importance of having good internal control systems and procedures. Over the last several years, we've had several recommendations that we provide to the County regarding some improvements. Those have all been implemented and I think the County's doing a very good job in that area now.

Mr. Finney: "I want to take just a little bit of time and kind of hit some highlights in terms of where the County is at financially now. We'll start with General Fund and then we'll talk briefly about the other funds. But, you can see for the year ended June 30, 2011, the County's General Fund, **Fund Balance** increased about \$3 million dollars so it's sitting at \$12.6 million in total. I'll talk about how we got to that \$3 million dollars. The unassigned piece of that Fund Balance which is the portion that's really available for general operations is \$12.4 million. So, not only has the County met its 15% Fund Balance Policy that it has, which is about \$8.2 million of that. But overall, your Fund Balance is up to about 22.6% of what you have appropriated for your 2012 budget. And I think it's important to highlight, we've had this discussion about every year, the Government Finance Officers Association, which is a national organization, they provide recommendations to local governments. With their policy right now, they're recommendation is that you have a minimum fund balance of 16.7%; which basically represents two months worth of operations. But, I think what's important is to highlight that is a recommendation of a minimum fund balance. Which is also what the County has with your Fund Balance Policy so, we'll talk a little bit more about that in just a moment. So, one of the questions we might have is how do we get there? Obviously, the County, you as a Council as well as Management, did a great job in terms of managing the finances. But, how did we get to that \$3 million dollar increase? Actually, I've got one other piece of information first, and this is

just really highlighting why it's important to have a good healthy Fund Balance. The thing I really like to point out, really two things. One is, that remember when we're measuring this Fund Balance at June 30th, the County is going to have to go about five to six months before you're gonna receive any more significant property tax money so one of the purposes for having that fund balance is to help with the cash flow. The second thing that I think is important and we're seeing this quite a bit lately, there's been a lot of debt issuance going on. The low interest rates, there's a lot of either refunding taking place or some new debt issuance to do some things around the State and a good healthy Fund Balance like this is gonna help you with your bond rating which means it's going to help you with your interest rates. In the end, you'll be able to save some money as a result of that."

Mr. Finney: "How did we get there? You can see on the **revenue** side, we always like to look at it in two ways. One, how did we do compared to the prior year? And you can see, you can actually compare to the prior year our revenues for General Fund were down about \$1.1 million. We kind of give you all the highlights there. We also like to look at it compared to budget. How did we do compared to budget? Because that's the legal document that you as Council approved. And for General Fund, overall revenues were down about \$325,000 compared to what we budgeted primarily due to the building permits coming under what had been budgeted. So, that's the revenue side."

Mr. Finney: "If you look at the **expenditure** side. Again, compared to the prior year, down about \$400,000 dollars so, pretty similar to what you had in the prior year. Again, you can kind of see some of the highlights that make that up. Compared to budget, you were down about \$1.6 million. Compared to the \$53.7 million dollar budget so, and we kind of hit the highlights again of what made up the bigger pieces of the expenditures coming in less than budget. The other piece that I think is important to mention. Those two in total, if you look at it compared to budget, your revenues and expenditures, that and this, out to about \$1.3 million. You also were significantly under budget on the transfers in and out. The biggest piece of that being the Mt. Holly fee that was received because that was not a budgeted item and that's what really got us to that \$3 million dollar increase in our fund balance."

Mr. Finney: "If you wanna look at the **other funds**, you can see capital projects. We've got about \$67.5 million sitting there. You obviously have planned uses for those funds so not a whole lot else to be said there. The debt service side, you've had about \$2.3 million dollars in fund balance. Again, obviously that's restricted for your future debt service payments. And on your special revenue funds, there's about \$10.3 million in total. Again, special revenue means that it's set aside to be used for a specific purpose and we kind of give you what makes up the most of that \$10.3 million in terms of the major special revenue funds there that make that up."

Mr. Finney: "Your **enterprise funds**, Water and Sewer and Solid Waste, on the **Water and Sewer Fund** side you can see your operating revenues were about \$35 million, increased about \$700,000 dollars compared to the prior year. Again, we provide a little more detail there of what makes that up. Your operating expenses were about \$27.3 million increasing about \$900,000 compared to the prior year. Most of that being higher maintenance and repairs. So, your operating income of \$8 million was very similar to what Water and Sewer had in the prior

year. On the non-operating side, both revenues and expenses, the bulk of that is your interest expense on the debt service payments. Overall, there was an increase of about \$1.8 million from the prior year. There were also typically, the Water and Sewer fund is going to receive some contributions from developers as they transfer some assets. You can see there are just about \$4 million dollars in contributions from developers. So overall, what you see is that there was an increase in net assets of a little over \$4 million dollars, compared to an increase of about \$1 million in the prior year. Most of the bulk of those net assets, of the \$181 million, are obviously related to the infrastructure and the associated debt. But, you can see that in June 30, 2011 Water and Sewer had unrestricted net assets of about \$21 million dollars.”

Council Member Callanan: “That’s Fund Balance?”

Mr. Finney: “Equivalent of Fund Balance, yes sir. The...because the debt that Water and Sewer issues is revenue bonds, they are required to have that debt service coverage ratio which is really looking into the future and saying, are we, do we have enough income in cash flow in order to meet our future debt service needs? The requirement is for a 1.2 debt service coverage ratio. This year it was 1.41. You might remember earlier in the year there was an ordinance in order to combine Water and Sewer and Solid Waste, and put those together as one and have one debt service coverage ratio. We use to separate those and have two and that has helped in terms of being able to calculate and meet that ratio. The other thing that I think is important to point out is you can see up there, I’ve got a bullet about if you exclude the one time fees. The ratio would have been about 1.15. That is a significant improvement in terms of where Water and Sewer and Solid Waste have been in the prior years. I went back and looked at it in preparation for this meeting. About 5 years ago compared to where we are now, we are relying significantly less on our one-time fees in order to meet this ratio; which is great because obviously, the goal that you want is for the reoccurring fees to be able to help you meet that ratio. So, I think Water and Sewer has done a great job in reducing the operational reliance on those one-time fees. The other thing that I wanted to point out and this is just more of a consideration, is that, I know when we talk about unrestricted net asset of about \$21 million, that’s significant. That’s quite a bit of funds. But, if you really look at it in the size of Water and Sewer, and we kind of look at it in two respects. One, what’s our ongoing obligations as far as debt service is concerned and number two, part of the reason that net asset or Fund Balance there is also there for emergencies or unanticipated events and when you really look at the size of the operations of Water and Sewer, one thing that we’ve recommended verbally and I think it’d be good for the County to look at is, working on increasing that Water and Sewer net asset balance even more considering the size of the overall operations you have now, especially with your infrastructure. On the **Solid Waste** side, you can see operating revenues of about \$10 million. We’re up about \$600,000 over the prior year. The operating expenses were down about \$900,000 compared to the prior year. That was all and more so due to the fact that the landfill closure and post-closure care costs were down about \$1.3 million, compared to where they were in the prior year so, outside of that, the other costs actually increased about \$400,000. So, the operating income of about \$1.5 million was significantly higher than what it was in the prior year as a result of that. So, when you look at it. You look at the net assets for Solid Waste. Up about \$1.6 million, overall about \$22.6 but the unrestricted piece, the unrestricted net asset for ongoing operations is about \$4.4 million.”

Mr. Finney: “**Parks and Recreation Fund** with the focus being Cypress Gardens. I want to commend and congratulate y’all for what you’ve done here. I know we’ve talked about this over the last several years but as a result of the decision that you made to assign that 1 mil in property taxes, you saw the results of that this year. That’s kind of what we highlighted up there for you. You actually had positive results of about \$86,000 compared to the \$547,000 dollar loss the previous year. Cypress Gardens was actually able to start repaying General Fund the amount that they owe. So, while they are still about \$850,000 out there, the progress that you have started heading the right direction with that. That was a big step to take and I know it wasn’t easy but I think it was the right step to take so, I want to commend you for doing that.”

Mr. Finney: “Several years ago, the County implemented what is called **GASB 34**. Really, two purposes behind GASB 34, but one is, the accounting is a little bit different so it’s similar to what a private enterprise would do as far as the financial accounting is concerned. Secondly, what this is doing is taking all the different funds of the County. You’ve got a General Fund, Debt Service Capital Projects, a number of Special Revenue Funds, your Enterprise Funds. What do you look like when you put that all together? And, this is kind of the highlight, the big picture perspective of that so about \$676 million dollars in assets. Obviously, the bulk of that is your capital assets, your infrastructure, your buildings, etcetera and your cash investments. Liabilities of about \$340 million, the bulk of that being your long term debt. Annual revenues and expenses when you put it all together in the \$130-\$160 million dollar range. So, that just kind of gives you a feel for the overall operations of the County.”

Mr. Finney: “We started putting this slide in a few years ago for you to kind of give you a big picture perspective, as far as, the overall **long-term obligations** that the County has. You know, about \$283 million in total, \$191 million of that the Revenue bonds. \$71 million, your General Obligation bonds and then you’ve got both your notes. Compensated absences is the vacation and sick pay that people that your employees have earned as well as those closure and post-closure costs on your landfill.”

Mr. Finney: “**OPEB**. This is the one other item that I wanted to spend a little bit of time talking about because I know that you have made some changes. I think to head the right direction with this after year end. If we go back to June 30, 2011, when we did the audit you can see the overall liability that actual accrued liability was sitting at \$8.9 million. What that represents is that everything that has been earned by the employees up until June 30, 2011. The County also with the GASB that came out has to calculate what’s called an Annual Required Contribution and this is basically where they’re saying, this is how much the County, if you were to get to a point that you could fund this ongoing. This is how much we’d recommend that you put in. And so, for the year end 2011, that was about \$1.1 million dollars. I know Council voted to change that after year end in October and we’ve kind of hit the highlights of what those changes would mean to you. So, instead of an overall liability of \$8.9 million dollars you can see the changes would have reduced that by about \$3.9, down significantly. The \$1.1 million Annual Required Contribution would be about cut in half based upon those changes you’ve made. So, I think you’ve made some great steps doing what you did, but now the challenge is, you still haven’t started funding it yet. The total of the Annual Required Contributions from the time you had to implement until now, totals about \$4.4 million dollars. So, in essence, those are...that’s

the sum of the annual contributions that have been calculated, but the County has not funded yet. And so, I think this probably, from our perspective the biggest challenge that you have going forward is to come up with some funding methodology so that you can get to the point that your funding that annual required contribution as well as catching up.”

Committee Member S. Davis: “And other governmental agencies, how is it addressed, the funding mechanism?”

Mr. Finney: “Boy, everybody has done it different. The first step they took is what you guys did.”

Committee Member S. Davis: “Ok.”

Mr. Finney: “And that is to change the benefits so that the amount of funding is less and then in essence, what they’ve really had to do is look at the finances and figure out a way to come up with some funds, one place or another. Most of my clients have basically had to come up with a way to reduce some expenditures in other areas to be able to set that aside. Because in essence what this really is, it’s one piece of your overall salaries and benefits package that you’re offering to your employees. So, you’re recognizing the expense but now you’ve got to figure out a way to actually get the cash to go along with the expense that you’re recognizing. So, it’s really coming up with a way to try to reduce some expenditure in order to start funding this.”

Committee Member S. Davis: “I tell you, I saw earlier about some unallocated money that we give to the Elected Officials some \$1.6. Is there any way we could put a tab on that to make them reverse that money back towards this in instance?”

Mr. Finney: “Well, that’s actually the fun that you guys get to have by figuring out how you’re going to come up with this, the funding for this.”

Supervisor D. Davis: “I mean, we definitely are going to address this, this year in the budget. It’s time that we have to do that and so we’ll have some recommendations for you.”

Committee Member S. Davis: “Ok.”

Mr. Finney: “And the fun does not stop there. I want to mention one other opportunity and challenge it looks like that you’re gonna have coming down the road. I think most of you are aware of the rather large unfunded liability that exists with the **State Retirement System**. The State Retirement System piece itself is about \$17 billion dollars unfunded and I think if you add the **PORS** the Police Officers piece of it, that’s another \$6 billion. You get up to about \$23 billion in total when you put it all together.”

Committee Member S. Davis: “B.”

Mr. Finney: “A ‘B’- Billion. Yes, sir. I know that is a major issue that the State Legislative bodies are working on trying to address. But, GASB has decided that for whatever

reason, they want to get involved in this as well. So, right now they actually have a draft standard that is out that basically is telling Berkeley County and every other local government in South Carolina, that what they would like to see you do is actually take your piece of that unfunded liability and show that as a liability on your County government-wide financials. It's not addressing the funding piece in any way, but simply saying, I think their thought process is: we know that liability is out there. We know that they are going to have to address it some way. Well, one of the ways that they are probably going to address it is by requiring both the employers and the employees to pony up a little bit more money somewhere along the way. And so the thought process is, well, somehow that liability needs to be reflected on the local government financial statements. It's early on, that is I'd say, at least two or three years away before anything would be finalized with that, but I just wanted to make you aware that's out there as well."

Mr. Finney: "One new GASB that the County did implement this last year was **GASB 54**. It doesn't really, it does not change anything real significant, but there's some change in terminology with Fund Balance and then the one thing that it did to the County is, it has some new criteria for how you could determine for what funds are Special Revenue Funds and which ones are not. And in looking at that criteria for the County, we saw that the Library Fund did not meet the new definition for a Special Revenue Fund so, that fund, instead of being a Special Revenue Fund, now in these financial statements that you have is just reflected within the General Fund and it will be that way going forward. But, that was the only change that was really necessary as a result of that."

Mr. Finney: "This is the **Pension Proposed Pronouncement** that I just mentioned to you with the Retirement System."

Mr. Finney: "As you know, as we are performing our audit services, as we come along items that are either **compliance issues** that we find or maybe we have some recommendations for how to, for the County to improve its operations; be more effective, efficient, or whatever it may be. We'll bring those to the County's attention. If because we perform a single audit for the County every year. The County receives a significant amount of Federal Funds, so the Federal Government asks us to look at specific programs of the County to make sure the County's complying. If we have any compliance matters related to that we are required to communicate those in writing to you. Those are in the back of the Financial Statements. There were just two very minor items related to the Airport Improvement Grant. They've already been resolved. They've already been fixed and the County's in good shape going forward. So, I think those are very minor issues. We also issue a **Management Letter**, if we have any recommendations for you. Those fall into two camps. There's a lot of things that we don't necessarily consider significant enough to put into writing that we will communicate with Management verbally and we've done that. But, the one item that is in your Management Letter that we feel like is getting significant, that needs to get some attention because it is significant is the funding of OPEB which we've already discussed, going forward."

Mr. Finney: "So, I know that was a lot to throw at you from kind of a big picture perspective but, let me go back and hit the **highlights** again. Number one, most important thing

as far as the audits concerned from our perspective is the County received the best opinion that you can receive, with that Unqualified Opinion. I think you all in Management need to be commended for how well you have done managing the finances of the County. To put yourself in the position that you're in, I think you have done an excellent job, especially in the circumstances that we find ourselves now with the economy because I tell you, we're not out of the woods yet. I was at a conference this last weekend, listening to some of the Board of Economic Advisors people for the State talk and while things seem to be improving, everything we hear is just going to be slow, slow, slow. So, may have to continue to make some just tough decisions going forward. And you definitely need to be commended on the finance side with where your Fund Balance is at. A good healthy Fund Balance, which I think you need in these times right now. So, keep doing what you're doing."

Chairman Schurlknight: "Larry, let me ask you this just out of curiosity. Out of all the municipalities that you do these audits for and also for other Counties, I'm kind of looking for a benchmark for Berkeley. Where would you say that we stack up against other counties and stuff, as far as, being financially stable?"

Mr. Finney: "You're in a good financial condition. If I look at you compared to just the other local governments across the state, your financial condition is good."

Council Member Farley: "Top ten?"

Mr. Finney: "Boy, that's hard to say. I mean because there's a lot that we don't even, there's a lot we don't even deal with. But, when you've got a Fund Balance of 22.6% and when you saw the results that you did for this year, and when you look at the significant improvements you're making with your Enterprise Funds. Especially, getting away from that reliance on the one-time impact fees; very good financial condition."

Council Member Callanan: "Mr. Chairman?"

Chairman Schurlknight: "Mr. Callanan, I think you were first."

Council Member Callanan: "Ok. With regards to the Fund Balance..."

Mr. Finney: "Yes, sir."

Council Member Callanan: "We have a policy of 15%. Now, we are at 20...."

Mr. Finney: "A little over 22."

Council Member Callanan: "A little over 22? At what point does that become stock-piling? And the issue is that it's always not healthy to have a higher, and higher, and higher, Fund Balance because then you're taking money out of the economy that you don't need. So, at what point does that become too much? If we have a 15% policy and we're 7% over it, and we added \$3 million dollars to it last year when we're already above our limit. It just seems to me

that we might be taking in more money than we need from people and then the issue of, we are charging people more money than we have to.”

Mr. Finney: “Right.”

Council Member Callanan: “And that’s the concern. At what point does it, you know, does that level of funding come to the point where we’re taking too much money out of the people’s pockets?”

Mr. Finney: “Yeah, great question. Obviously, there’s not a...there’s not a, this is the percentage kind of answer, but generally what we with the folks that we work with, what we tell them is, number one, you need to look at your specific needs in situations you may find. Because part of the reason you want to keep a Fund Balance is maybe you’ve got some long term plans that you want to use a little bit of that for. The general benchmark that we will use is when we see it getting beyond 4 months, unless there’s a specific reason for that, then at that point, that’s when we feel like you’re generally starting to get to the point that you’re probably are building up more than you really need. But, one thing I would say about that Mr. Callanan, is you guys are in a unique position being close to the coast. And so, what I tend to look at down here is that’s 16, I say 20%, 16.7 but I just say, I like to say 20% is kind of a minimum Fund Balance. But, because of where you’re at, at the coast. I would tend to say you might even want to go a little bit more than that because of where you’re at. I’ve got a specific example to kind of share with you. I had a little smaller client, that thought they had a healthy Fund Balance when Hugo came around and what they did not really take into consideration is that even though FEMA in the end was going to take care of 80% of their clean-up costs. The cash flow side of that hit them hard because it was several months before FEMA came around started providing some funding and so, you guys have a unique situation down here at the coast that I think needs to be taken into consideration too.”

Council Member Callanan: “And I’ll tell you where my concern comes from.”

Mr. Finney: “Ok.”

Council Member Callanan: “A couple of years ago, you know, you were standing up here saying that, it’s great you guys now have a 15% policy and we really need to reach that. Then all of a sudden it’s 16.9% that we really need to have a minimum of, and then it’s all of a sudden it’s well, it’s 16.9 but I like to call it 20. Then all of a sudden it’s not 20, it’s you know, 3 months. You know, it’s just, this shifting target of how much money we have to have in our bank account concerns me, because it just seems like it’s never enough and that we’re always going to have to continually to take more money in order to meet this moving target. So, that’s just a worry for me.”

Mr. Finney: “Sure well, and I wouldn’t consider it a moving target. You guys set a 15% Fund Balance and you’ve done a great job meeting it. And, what you’ve gotta decide is Council and Management is, is that enough for us based upon our needs where we are at geographically and if it is....”

Council Member Callanan: "Ok."

Mr. Finney: "Great."

Council Member Callanan: "And, you know, that's the first point I want to bring up. The second point is, this \$3 million dollars that got dropped into the Fund Balance this year. Is that, do you compare this to where the budget is? What I'm trying to figure out is, was that just non-budgeted revenue that we knew were coming in, but just didn't budget it for anywhere so it just got dropped into the Fund Balance?"

Mr. Finney: "What I'd like to show you so you can see where this is at in the financials. Do you have financial statements handy?"

Council Member Callanan: "We talking this thing?"

Mr. Finney: "Yeah. If you will go to page 60 in the financial statements, actually it starts on page 59. There's a two page schedule here that basically takes your original budget, your final budget, what your actual results were and then shows the differences. And so, what you can see from kind of a big picture perspective for the revenues, for each of your functions, on the expenditure side and you go down on to the second page and about two thirds of the way down you'll see where before you get to the other financing sources it says excess or deficiencies of revenues, over and under expenditures. You'll see that we had budgeted to actually, at that point, have expenditures over revenues of \$1.7 million. Actually, we ended up at a negative \$400,000 so we were favorable by \$1.3 million. Ok? When we take our transfers, our other financing sources into account that's where this Mt. Holly revenue came into place which is why on the transfers in, there's such a big difference there of about \$2.2 million. But you'll see in the actual column the next, the third column over, when you get to a net change in Fund Balance, that's the \$2, 975,000. I, for presentation purposes, said \$3 million. But that's that \$3 million dollar number I'm talking about. So, that's actual results was an increase of \$3 million whereas, you had budgeted to actually use \$838,000 of Fund Balance."

Council Member Callanan: "To me that just seems like an astronomical amount to be off on a budget. I..."

Mr. Finney: "Well, just remember though, \$2.3 million of that was Mt. Holly which was not budgeted."

Council Member Callanan: "Why? Wouldn't that normally? If we knew the money is coming in, be budgeted? Why is it held out of the budget?"

Supervisor D. Davis: "I think I can answer that. Remember last year we had passed, we had first reading on the ordinance to designate that money, but we didn't have our figures final yet so, we just kind of sat on that. So, the main reason, until just recently, we haven't known what the final tab was on the Sheep Island Interchange, so that we could budget it. So, that's the reason that nothing was done with that money."

Council Member Callanan: "Ok."

Mr. Finney: "So Tim, if you take that out of the equation basically, we were within about \$700,000, you know \$3 million minus the \$2.3 for this size of entity, that's very reasonable."

Council Member Callanan: "I have one last question and it has to do with Fund Balance. We passed a resolution to combine Fund Balances for the Water and Sanitation, I'm sorry, Water and Sewer and Sanitation Fund. But, they're separate for you."

Mr. Finney: "Well, there're still separate funds for financial reporting purposes."

Council Member Callanan: "Ok."

Mr. Finney: "Just for the financial statements. But, we also have a total column over there so that you can see what they are in total as well."

Council Member Callanan: "And the...so, would you, you made a description that the \$21.2 million dollars of Unrestricted Fund Balance was, you'd like to see that higher? What about the \$4.4 million dollars on Water and Sanitation, is that high or low?"

Mr. Finney: "That's a little low. Actually, the unrestricted piece for Solid Waste actually went down about \$1 million dollars for the year. It was a little over \$5 million last year and that could be a little bit higher than the 4.4 that it's sitting at right now as well."

Council Member Callanan: "Ok, so..."

Mr. Finney: "Same reasons."

Council Member Callanan: "And what would that be as a percentage of, do you have any idea? You gave us a 22% on General Fund for the County. Do you know what that \$21.2 million dollars comes as a percentage?"

Mr. Finney: "Yeah, your operating revenues for Water and Sewer were about \$35 million so that's a little over 50%. But, remember you need it because it's a totally different kind of fund than General Fund. You're talking about an Enterprise Fund with a lot of infrastructure and some significant debt service right now. Obviously, when your debt service, your debt service is going to be at about \$16 million dollars for quite a few years to come, but if that ever goes down, you know that can make you take a little different look at the Fund Balance at that point."

Council Member Callanan: "Yeah but, isn't your debt service...I mean it's a balancing act in that you can, if you build up a huge Fund Balance you can start to pre-refund or de-fee some of your debt that you owe and then you know you're at least taking that debt off the books and not just sitting on a huge cash balance because my guess is, you're not, you're paying more

in interest on the bonds than you are in getting back the money that's invested in the Fund Balance."

Mr. Finney: "Yeah, you're not going to earn a whole lot of interest right now for sure."

Council Member Callanan: "Right, but you're going to pay out a whole lot of interest."

Mr. Finney: "Yeah, you are."

Council Member Callanan: "So, if you pre-refund it some way then say alright, let's just take, this is months, let's just take five, you know, we're going to pre-refund some bonds. We'll pre-refund a \$100 million, we'll actually only do \$95 million. We'll take \$5 million out of the Fund Balance and pay it down that way. I mean..."

Mr. Finney: "That is, if you have excess funds that's obviously something that would always be good to take a look at as part of your cash flow projections and ongoing operational projectors."

Council Member Callanan: "Because if not, your Fund Balance is just going to completely balloon and it's never going to get better until these bonds are retired and you know, my point is, why don't we, if we can find the opportunity to retire them in some way shape, or form early, and we have a huge Fund Balance. Let's do it and that'll get us to our finish line a little bit earlier so that we can start looking at issues like..."

Mr. Finney: "Yeah."

Council Member Callanan: "Over, you know, our somewhat inflated impact fees."

Mr. Finney: "Yeah, if you get to that point, absolutely, that's something you could look at doing."

Council Member Callanan: "Ok, thank you."

Supervisor D. Davis: "Mr. Chairman?"

Chairman Schurlknight: "Mr. Supervisor?"

Supervisor D. Davis: "I just want to make one comment on the Fund Balance at Water and Sanitation. At the same time we're trying to reach a point of self sustainability, and with an infrastructure replacement fund. So, some of those dollars could be diverted to that, just to have the money to replace projects or replace lines, sewer lines, water lines as we need to. But, that's something that they've been working on and that's that inventory program, exercise they're going through now to kind of direct that. But, I wanted to make a comment about the Fund Balance and the General Fund. It's my recollection that there really wasn't a discussion of a Fund Balance Policy. As I remember, Dennis, I think I remember you saying, you know, we just

need a target and you pretty much arbitrarily picked 15% and we set that as a target. But, I don't know that we have gone through an exercise of discussing the Fund Balance, but we obviously need to rely on the experts to help us determine that. And again, some of the reasons why the Fund Balance is where it is, is because we didn't know when we were doing last year's budget, there were factors that we weren't aware of. We didn't know the figures to it and rather than do an ordinance and name a figure and then have to back off of it; we decided to wait. But, we will, we now have perfected our information and we will soon have that ordinance and spell that out. But, the other comment I wanted to make and I'm not going to ask you to go back through the slides, but back on slide 5."

Mr. Finney: "I can go back there real quick."

Supervisor D. Davis: "Alright."

Mr. Finney: "Not a problem."

Supervisor D. Davis: "The notation that it helps the....a good healthy Fund Balance helps the County obtain lower interest rates and interest costs through the savings, savings through a stronger bond rating. My grandmother always had a saying: 'The proof of the pudding is in the taste.' You know that's one of the things that we have been working towards is with the Fund Balance was to improve our appearance, our position with the bond rating agencies."

Mr. Finney: "Right."

Supervisor D. Davis: "And I'm real, real, excited because I have an announcement to make. As you all know, Members of Council, we recently approved a bond refunding and as a part of that whenever you do a refunding, you typically have a rating review. The last rating review we had, was when we sold the GO Bonds. \$10 million dollars worth of GO Bonds here a couple of years ago and that's what all of the information...We actually had to go NY and sit before Moody's and Standard and Poor's to have them rate us and the number of the things that they told us for example, the Fund Balance Policy, the Fund Balance was too low, you know, we weren't doing a good job with our finances. We came back and that's what resulted in a number of changes. Well, now I'll get to the point. We had another bond rating review last week and anticipation of this refunding and I'm very very happy to report that Moody's has given us a rating improvement. Remember our rating was an AA 2 with a Negative Outlook. They have removed the Negative Outlook and we will be supplying you with the letters. The letter from Moody's which, pretty much spells out the reasons why they removed that Negative Outlook. But, that was pretty good, but then today Standard & Poor's trumped that with...they actually gave the County a bond rating upgrade. We move from an AA Minus to an AA. So, you know again, the proof of the pudding is in the taste and through the efforts of a lot of folks. We are making significant progress and that's the pudding."

Mr. Finney: "I tell you, you all should be very proud of that because I will just tell you they do not give bond rating upgrades very easily. Those are hard to come by and I can remember not that long ago when we were all sitting here talking about how are we going to get

to a 5% Fund Balance and now here we are today and you're getting the kind of bond ratings. That's a big step. You ought to feel good about that."

Chairman Schurlknight: "Do we have any further questions?"

Committee Member S. Davis: "Mr. Chairman, I just want to add Larry I just enjoy seeing you. It's been a long time. You always remind me and I don't mean this in a negative, I mean all positive of one of my professors in law school who really kind of put it all on the line and kind of do a quite efficient job letting us see the nuts and bolts of where we're headed and I do recall when we was very direly concerned about our Fund Balance and I'm so tickled pink that we're moving in the right direction and maybe at one point Tim, we'll reach a point when we can just draw a line in the sand and say this is where we are. But, I think in these very difficult times we need to commend the leadership under our current Supervisor and the Staff and the efforts that we have made on County Council. It's just refreshing to have you Larry, come before us on such a positive note even though we're not there yet. We're not there yet. We thank you, very much."

Mr. Finney: "Thank you."

Chairman Schurlknight: "Thank you."

Mr. Finney: "Can I make one final comment? I know most of, if not all of you have full-time jobs and you're very busy and it's that way with Jennifer and Marietta and Kace in the Finance group. They are basically busy before they have to deal with us. And so, we come in for, I don't know, two or three weeks in the June-July time frame and then we come in December again for another 3 or 4 weeks and we're basically piling on to what they already have and it's a lot of extra effort and a lot of work. I just want to commend them because I think the audit probably went better this year than it has ever gone in the past. So, I wanna thank...oh yes, and Johnette and Phyllis and the group from Water and Sanitation. Thank you, Kace. It's the same way for them. They're busy working 40 or 50 hours a week before we come in and then they get to deal with us. So they, all of them, have worked really hard and both sides of it. Water and Sanitation and the County here, it went better than it's ever gone before. So, they need to be commended for their good and hard work."

Supervisor D. Davis: "Well Larry, I'd like to say you know, they had a little extra help last year. You know, there are two big projects every year. Of course, the budget and then the audit and Frank Carson came in and helped balance it. But we actually balanced the budget for them so that gave them a lot of extra time to work on the audit so I know you want to commend them, but it's all Frank's deal."

Mr. Finney: "Ok, alright. I stand corrected then."

Ms. Kace Smith: (Inaudible)

Supervisor D. Davis: "Well, Eric helped a little bit, yeah."

Chairman Schurlknight: "Larry, I'd like to say I appreciate everything. I know it was a lot of hard work that was done to this. It was... this is great for Berkeley County. For where we were and where we are and we definitely can see the light at the end of the tunnel. I appreciate your hard work and I just want to echo about Kace and her staff in Finance. They do a tremendous job. I appreciate everything Kace and them do and I appreciate everything you do for me as Chairman of Finance. That's something I don't have to worry about. They know what they're doing and it's showing right here tonight."

Mr. Finney: "That's exactly right."

Chairman Schurlknight: "And we appreciate that. Do we have any other comments? I know he's got a long drive tonight and he's probably ready to hit the road, heading back up part of the state."

Mr. Finney: "I'm going to stick around for a couple of other things too. So..."

Chairman Schurlknight: "Ok, any other comments, any questions? Good Larry, thank you very much."

Mr. Finney: "Thank you very much."

Committee Member Pinckney: "Thank you. First reading?"

Mr. Larry Finney, Finney and Horton. presented the 2011 County Audit. For information only. No action was required. [A copy of this presentation is attached hereto and by this reference made a part hereof.]

Chairman Schurlknight: "Next on the agenda is..."

- B. Consideration prior to First Reading of an ordinance** providing for the allocation of revenues generated by the **Berkeley/Williamsburg Joint Industrial and Business Park**; repealing Ordinance No. 96-1-2, as amended, in its entirety; and repealing all resolutions pertaining to the allocation of revenues generated by the Joint Industrial and Business Park in the entirety.

Committee Member S. Davis: "Move for approval."

Committee Member Pinckney: "Second."

Chairman Schurlknight: "I have a motion and second. Discussion?"

Council Member Callanan: "Yes sir?"

Chairman Schurlknight: "Mr. Callanan?"

Council Member Callanan: "I noticed everyone was quick to give a motion and a second. I don't even have a copy of what the changes are. Do we?"

Supervisor D. Davis: "It's basically by title only. Remember we had this and passed it last year and kind of got it in the process and so we just wanted to get it on, get it in the process again because that has expired but we will have the figures. Actually, I think we have them now, so we'll have them at the next meeting."

Council Member Callanan: "Ok. So, we don't know what we're passing right now. We're just..."

Committee Member S. Davis: "Just First Reading."

Council Member Callanan: "Just First Reading? Ok."

Chairman Schurlknight: "First Reading for title only. Any other comments, questions? (No Response). We have a motion and a second. All in favor? (Ayes) Opposed? (No Response). Motion carries."

It was moved by Committee Member S. Davis and seconded by Committee Member Pinckney to **approve** prior to First Reading, of an **ordinance** providing for the **allocation of revenues generated by the Berkeley/Williamsburg Joint Industrial and Business Park; repealing Ordinance No. 96-1-2, as amended, in its entirety; and repealing all resolutions pertaining to the allocation of revenues generated by the Joint Industrial and Business Park in the entirety. The motion passed by unanimous voice vote of the Committee.**

Chairman Schurlknight: "Next is..."

- C. **Consideration** prior to **Third Reading** of **Bill No. 11-19**, an **ordinance** authorizing (1) the execution and delivery of (a) a Second Amended and Restated Fee-In-Lieu of Tax and Incentive Agreement by and between Berkeley County, South Carolina (the "county") and **HLIT IV SC-1, L.P.** and **HLIT IV SC-2, L.P.** and (b) a Second Amended and Restated Fee-In-Lieu of Tax and Incentive Agreement by and between the county and **HW BERKELEY PHASE II-A, LLC, HW BERKELEY PHASE II-B, LLC** and **HW BERKELEY PHASE II-C, LLC**, in connection with investment in the county; and (2) other matters relating to the foregoing.

Committee Member S. Davis: "Move for approval."

Committee Member Pinckney: "Second."

Chairman Schurlknight: "We have a motion and second. Any discussion? (No Response) All in favor? (Ayes) Opposed? (No Response). Motion carries."

It was moved by Committee Member S. Davis and seconded by Committee Member Pinckney to **approve** review prior to Third Reading of **Bill No. 11-19**. The motion passed by unanimous voice vote of the Committee.

Chairman Schurlknight: "Next is..."

- D. Consideration of a Resolution** in support of the issuance by the **South Carolina Jobs – Economic Development Authority** of its **Solid Waste Disposal Facility Revenue Bonds**, in one or more series pursuant to the provisions of Title 41, Chapter 43 of the Code of Laws of South Carolina 1976, as amended, in the principal amount of not exceeding **\$30,500,000**.

Committee Member S. Davis: "Move for approval."

Chairman Schurlknight: "We have a motion. Do we have a second?"

Committee Member Call: "Second."

Chairman Schurlknight: "We have a second. Discussion?"

Committee Member C. Davis: "Second."

Chairman Schurlknight: "Hearing none. All in favor? (Ayes) Opposed? (No Response). Motion carries."

It was moved by Committee Member S. Davis and seconded by Committee Member Call to **approve** consideration of a **resolution** in support of the issuance by the **South Carolina Jobs – Economic Development Authority** of its **Solid Waste Disposal Facility Revenue Bonds**, in one or more series pursuant to the provisions of Title 41, Chapter 43 of the Code of Laws of South Carolina 1976, as amended, in the principal amount of not exceeding **\$30,500,000**. The motion passed by unanimous voice vote of the Committee.

Chairman Schurlknight: "Next is..."

- E. Consideration of a Resolution** of Berkeley County Council to provide for the adoption and implementation of **written bond compliance procedures** from time to time and other matters related thereto.

Committee Member S. Davis: "Move for approval."

Committee Member Pinckney: "Second."

Chairman Schurlknight: "We have a motion and second. Discussion?"

Council Member Callanan: "Yes. What's this, Mr. Chairman?"

Chairman Schurlknight: "Kace?"

Ms. Kace Smith: "A resolution was recommended by our Bond Council as Mr. Davis mentioned earlier. We are going out for refunding. There is a form, IRS Form 8038, that needs to be completed. On there are two new questions and they ask about written documentation that the County Council, or the government may have in regards to bond compliance."

Council Member Callanan: "Ok."

Ms. Kace Smith: "We've been strongly advised by our Bond Council for Council to adopt this."

Council Member Callanan: "Ok, thank you."

Chairman Schurlknight: "Any other comments, questions? (No Response). Hearing none. All in favor? (Ayes) Opposed? (No Response). Motion carries."

It was moved by Committee Member S. Davis and seconded by Committee Member Pinckney to **approve** consideration of a **resolution** of Berkeley County Council to provide for the adoption and implementation of **written bond compliance procedures** from time to time and other matters related thereto. The motion passed by unanimous voice vote of the Committee.

Chairman Schurlknight: "I'd entertain a motion for adjournment."

Committee Member S. Davis: "Move for adjournment."

Committee Member Pinckney: "Second."

Chairman Schurlknight: "We have a motion and second. All in favor? (Ayes) Opposed? (No Response). We're adjourned, thank you."

It was moved by Committee Member S. Davis and seconded by Committee Member Pinckney to **adjourn** the meeting of the Committee on Finance. The motion passed by unanimous voice vote of the Committee.

Meeting adjourned at 7:42 p.m.

March 26, 2012
Date Approved

FINANCE

(Standing Committee of Berkeley County Council)

Chairman: Mr. Jack H. Schurlknight, District No. 6

Members: Mr. Robert O. Call, Jr., District No. 3
Mrs. Cathy S. Davis, District No. 4
Mr. Caldwell Pinckney, Jr., District No. 7
Mr. Steve C. Davis, District No. 8

Mr. Phillip Farley, District No. 1, ex officio
Mr. Timothy Callanan, District No. 2, ex officio
Mr. Dennis Fish, District No. 5, ex officio
Mr. Daniel W. Davis, Supervisor, ex officio

A **meeting** of the **COMMITTEE ON FINANCE**, Standing Committee of Berkeley County Council will be held on **Monday, February 27, 2012**, at **6:02 p.m.**, in the Assembly Room, following other scheduled meetings, Berkeley County Administration Building, 1003 Highway 52, Moncks Corner, South Carolina.

AGENDA

In accordance with the Freedom of Information Act, the electronic and print media were duly notified.

APPROVAL OF MINUTES: Transparency Committee

January 18, 2012
January 23, 2012

EXECUTIVE SESSION to discuss matters relating to the proposed location, expansion, or the provision of services encouraging location or expansion of industries, or other businesses in the area served by the County; or discussions of negotiations incident to proposed contractual arrangements and proposed sale or purchase of property, the receipt of legal advice where the legal advice relates to a pending, threatened, or potential claim or other matters covered by the attorney-client privilege, settlement of legal claim, or the position of the County in other adversarial situations involving the assertion against the County of a claim.

A. Mr. Larry Finney, Finney and Horton, Re: 2011 County Audit.

B. Consideration prior to First Reading of an ordinance providing for the allocation of revenues generated by the **Berkeley/Williamsburg Joint Industrial and Business Park**; repealing Ordinance No. 96-1-2, as amended, in its entirety; and repealing all resolutions pertaining to the allocation of revenues generated by the Joint Industrial and Business Park in the entirety.

- C. **Consideration** prior to **Third Reading** of **Bill No. 11-19**, an **ordinance** authorizing (1) the execution and delivery of (a) a Second Amended and Restated Fee-In-Lieu of Tax and Incentive Agreement by and between Berkeley County, South Carolina (the "county") and **HLIT IV SC-1, L.P.** and **HLIT IV SC-2, L.P.** and (b) a Second Amended and Restated Fee-In-Lieu of Tax and Incentive Agreement by and between the county and **HW BERKELEY PHASE II-A, LLC**, **HW BERKELEY PHASE II-B, LLC** and **HW BERKELEY PHASE II-C, LLC**, in connection with investment in the county; and (2) other matters relating to the foregoing.
- D. **Consideration** of a **Resolution** in support of the issuance by the **South Carolina Jobs – Economic Development Authority** of its **Solid Waste Disposal Facility Revenue Bonds**, in one or more series pursuant to the provisions of Title 41, Chapter 43 of the Code of Laws of South Carolina 1976, as amended, in the principal amount of not exceeding **\$30,500,000**.
- E. **Consideration** of a **Resolution** of Berkeley County Council to provide for the adoption and implementation of **written bond compliance procedures** from time to time and other matters related thereto.